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30 April 1980

## MEMORANDUM

SUBJECT: Briefing for Mexican President Jose Lopez Portillo on Sweden

1. Swedish elections last October returned to power the three non-socialist parties--Moderate, Center and Liberal--but with their parliamentary majority reduced from 11 seats to 1. The Social Democratic Party gained 2 seats and the Communists, who have supported Social Democratic minority governments, increased their mandate from 17 to 20 seats. Although the leftist gains reversed a 10 year slide, they were not enough to bring the Social Democrats back to power. Former Prime Minister Olaf Palme, moreover, faces a threat to his leadership of the Social Democratic Party if he cannot bring down the nonsocialists and force elections before the 1981 party congress. [ ]

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2. The victory of Sweden's nonsocialist parties in the 1976 elections, when they assumed government responsibility for the first time in 44 years, was largely a response to the anti-nuclear energy position of Prime Minister Falldin and his Center Party. The nonsocialist victory last year reflected widespread appreciation for the economic leadership and management ability of Minister of the Economy and Moderate Party Chairman Gosta Bohman. Nuclear power was not a major factor in the 1979 election, because all party leaders agreed after the Three Mile Island accident to submit that issue to a referendum in early 1980. [ ]

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3. Between the election last fall and the referendum on 23 March this year, uncertainties about what effect the referendum would have on economic and fiscal policies hindered governmental initiatives and even stalled labor negotiations. In the referendum, voters were asked to choose between phasing out the 6 presently operating reactors in 10 years or continuing nuclear expansion with the 12 reactor plan adopted in 1975. [ ]

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4. Swedes decided to accept the expanded capacity option, and the government is now actively pressing its economic program which includes a wage-price freeze, tax reforms, government spending restraints and withdrawal of subsidies from certain industries--notably shipbuilding--as part of an effort to foster structural adjustments in Swedish industry. [ ]

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5. The government, however, is having problems getting organized labor--politically allied with the opposition Social Democrats--to accept the tight wage restraints, and selective strike actions and threats of strikes are beginning to disrupt the economy. Failure to reach agreement on the contracts could undermine the economic package and, indeed, the government itself.

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6. The foreign policy of the nonsocialist government is similar in most respects to that of previous socialist administrations. The Swedish government's attitude toward developing countries is an extension of its domestic economic and social policy, which reflects mainly respect for individual rights. The Swedes do not, however, believe that a government's record on human rights is a valid criterion for granting aid; Stockholm bases its generous economic aid grants on an evaluation of a population's needs. One policy change made by the nonsocialists was a decision to join the Inter-American Development Bank. The Socialist government had argued that there was too much US influence on the Bank's policies. The present government, however, believes membership gives it increased access to Latin American economies and sees this as the overriding consideration.

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7. Stockholm accepts political refugees from many distressed countries through the UN High Commission for Refugees. Until recently the Swedes focused their efforts on refugees from Latin America but they responded to the plight of Southeast Asian refugees by expanding their quota. They have sent money to the UN to aid the Cuban refugees, but have declined to resettle any in Sweden, possibly out of fear that it could damage Swedish-Cuban relations.

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8. Almost four years of nonsocialist governments in Sweden have proven that they will undo neither the welfare state nor Sweden's traditional foreign policy. Both, however, may be constrained by slow economic growth until the country's industrial structure adjusts to changes in international economic conditions, such as the energy shortage. The government will not be able to adopt the necessary policies without political risks, as recent labor unrest indicates, but success could enhance Sweden's technological position and maintain its reputation for fairness in the third world.

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